

FY04 Budget Highlights



Major Issues and Action from the 2003 Regular Session of the Legislature

*Presented by Senate Fiscal Services
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FY2004 State Budget Highlights

Balancing the FY04 Budget

- The total means of financing for FY04 is roughly \$16.8 billion, which constitutes approximately \$6.5 billion in State General Funds. As the session commenced, the outlook for the budget looked grim at best. The state was facing a significant structural deficit – the difference between available revenue and the continuation budget in this case – of roughly \$600 million.
- As the session progressed and budget negotiations continued, it became obvious that cuts of the aforementioned magnitude would seriously impair the ability of health care agencies to provide vital services and that constructing a “workable” budget would require an additional \$250 million to \$300 million in revenue just to fund minimal budgetary requirements.
- On the same day the House Appropriations Committee passed out a very lean budget proposal, Congress passed a Federal Fiscal Relief package to assist states in meeting budgetary constraints. The relief package contained nearly \$300 million dollars specifically earmarked by formula for Louisiana. The Legislature proposed utilizing the entire amount of the state’s relief package over both the FY03 and FY04 budget cycles mainly to offset potential major budget reductions primarily in the Department of Health and Hospitals and LSU Health Care Service Division (HCSD), the Charity Hospitals.
- As a result of the influx of federal dollars, the state was in a position to adopt a three-year \$95.4 million defeasance plan instead of the two-year plan in the amount of \$66.4 million. The plan provides for prepayment of debt service on selected bonds for FY’s 04, 05, and 06. The defeasance plan will reduce debt service costs that must be paid by the State General Fund in the amounts of \$46.4 million in FY04, \$30 million in FY05, and \$21 million in FY06 (actual debt service savings total roughly \$97.1 million). Monies utilized to provide for the defeasance include: balances in the Mineral Audit Settlement Fund - \$66.4 million; FY02 surplus in the amount of \$13.5 million; non-recurring revenue as recognized by the Revenue Estimating Conference in the amount of \$6.1 million and \$9.4 million available in general fund cash in FY03 due to the influx of Federal Flexible Grants.
- Striking a balance between Higher Education enhancements and, in fact, any enhancements versus base Health Care funding dominated budget discussions throughout the session. After significant adjustments, DHH received a major restoration that left it with moderate budget growth to cover significant unfunded mandates. Higher Education, which started out in the Executive Budget with approximately \$74 million in enhancements, ended the session with roughly \$57 million in remaining enhancements.

- The final budget balancing mechanism implemented was an across the board cut of \$17.3 million in State General Fund. This cut translates into a percentage reduction of approximately 0.8%. The cut will be applied proportionally to all departments based on the amount of discretionary general fund dollars included in their operating budgets.
- A sampling of significant Senate action taken on the Executive Budget included the following:
 - an additional \$30 million for a \$100 million state debt defeasance plan (a compromise plan worked out during conference committee between the House and Senate called for a reduced amount of an additional \$25 million which provided for a \$95.4 million state debt defeasance plan);
 - restoration of \$35 million in the Health Care Services Division,
 - a total of \$8.7 million, of which \$6 million was in General Fund dollars, for the LSU Health Sciences Center – Shreveport;
 - funding for Medicaid Outliers payments to hospitals program in the total amount of \$17.5 million (\$4.5 million State General Fund);
 - funding for DNA testing in the amount of \$4 million;
 - restoration of \$500,000 to the Councils on Aging and Senior Centers;
 - and, restoration for the operation of regional crime labs in the amount of \$500,000.

The following sections highlight some of the primary budget issues during the recently ended session. Please refer to our upcoming recap of the budget due out by the end of the month for a more detailed analysis.

Departmental Budget Overview

Department of Health and Hospitals

- The overall FY04 budget growth for the Department of Health and Hospitals is approximately 10% (*including over \$340 million in Medicaid financing mechanisms*) from a department budget of \$5.450 billion in December 2002 to \$5.976 billion budgeted in the enrolled General Appropriation Bill.
- The growth in “real” funding for the administration, reimbursement and/or direct provision of health care services by the department is \$232 million, or 4%, with an increase of 51 positions. (*These figures exclude financing mechanisms.*)
- The department will experience, from the funding levels described above, a portion of the 0.8% cut in discretionary spending amounting to a cut of approximately \$5 million state

funds and \$20 million in total funding in a manner to be determined by the department and as approved by the Division of Administration.

Medicaid Administration and Services

- The total budget for Medicaid Administration and Services for FY04 is \$5.013 billion, including \$341 million in financing mechanisms that will generate over \$240 million in state matching funds.
- The Legislature provided \$4.5 billion for the delivery of medical services to Medicaid enrollees and the uninsured in FY04, thereby stabilizing funding in FY04 with a \$184 million or 4% increase over FY03.
- Specifically, the increases/decreases in Medicaid's programs for medical services range from approximately +13% to -21%:
 - The Payments to Private Providers Program is increasing by \$278 million (10%) to \$3.193 billion.
 - The Payments to Public Providers Program is increasing by \$53 million (10%) to \$584 million.
 - The Medicare Buy-Ins Program is increasing by \$13 million (13%) to \$117 million.
 - The Uncompensated Care Costs Payments Program is decreasing by \$160 million (-21%) to \$606 million.
- The new state optional plan service known as Personal Care Attendants (PCA) is the result of the *Barthelemy* case and received \$28.2 million in funding. Language in HB1 directs DHH to seek court approval to provide PCA services through a cost controlled waiver program rather than as a state plan option with potentially unlimited enrollment. Further, action taken in HB1 delayed implementation of the program by directing DHH to make preparations to deliver PCA services starting October 1, 2003, rather than July 1, 2003, if the court does not permit the waiver alternative.

Public Health Services

- In FY04, the budget for the Office of Public Health (OPH) will increase by \$27 million (10% over the FY03 level) to total \$294 million.
- The largest portion of this increase is \$16 million associated with the consolidation of the ChildNet program in OPH. ChildNet is a program for at-risk infants and toddlers age 3 and under offering physical, speech, occupational, and other therapies.

Mental Health Services

- In FY04, the budget for the Office of Mental Health (OMH) and the three Mental Health Areas will increase by \$6 million (3% over the FY03 level) to total \$252 million.

Developmental Disabilities Services

- In FY04, the budget for the Office for Citizens with Developmental Disabilities (OCDD) and the various Developmental Disabilities Centers (DD Centers) will increase by \$9 million (4% over the FY03 level) to total \$232 million.

Addictive Disorders Services

- In FY04, the budget for the Office for Addictive Disorders (OAD) will remain virtually constant increasing only by \$0.3 million (0.4%, over the FY03 level) to total \$69 million.

LSU Health Sciences Center – Health Care Services Division

- Due to the use of short-term financing mechanisms in the Medicaid program and the federally imposed cap on federal matching funds for the provision of health care services for the uninsured, the LSU Health Sciences Center – Health Care Services Division (HCSD) faced a reduction of \$98 million in FY04 in the early phases of the appropriation process.
- The Senate added \$36 million in State General Fund to the FY04 General Appropriation Bill to partially offset this reduction.
- HCSD will restructure services provision across its facilities in FY04 in response to the \$50 million budget reduction from its FY03 base budget.
- Further, Act 432 (FY03 Supplemental Appropriation Act, originally HB 1968) restored \$14 million to HCSD's restricted account. This provides a revenue source to HCSD which otherwise would have been utilized in FY03.
- Assuming constant earnings in non-state funded revenues, HCSD's projected budget is \$798.4 million for FY04, or -7.1% below the most recent FY03 projections of \$859.7 million.
- The use of restored restricted accounts funds to further offset reductions in FY04 will produce a net projected budget reduction of -5.5% for FY04.
- HCSD is currently working to develop a budget for FY04 that will be presented to the LSU Board of Supervisors for approval at its July 2003 meeting.

- Under the management authority granted in Act 906 of the 2003 Regular Session, HCSD will be able to offset, to a degree, reduced revenues by charging non-indigent patients for care, reduce services up to 35% to correspond to anticipated revenue collections, and E. A. Conway Medical Center in Monroe was transferred to the LSU Health Sciences Center – Shreveport on July 1, 2003.
- HCSD's FY04 budget contains \$33 million for the costs of providing medical services to state and local inmates at its nine facilities.

LSU Health Sciences Center – New Orleans

- HSC-NO will receive an additional \$6.6 million in the Tobacco Tax Health Care Fund to support the Louisiana Cancer Research Center in FY04. Also, \$8.25 million in unspent funds from FY03 will be carried forward into FY04. This will bring the total in the fund for HSC-NO to \$26.3 million.

LSU Health Sciences Center – Shreveport

- The LSU Health Sciences Center – Shreveport (HSC-S) will have to closely monitor expenditures in FY04 at University Hospital.
- Due to the use of short-term financing mechanisms in the Medicaid program and the federally imposed cap on federal matching funds for the provision of health care services for the uninsured, HSC-S faced a total budget problem of \$14.6 million in the early phases of the appropriation process.
- The Senate added \$5.1 million State General Fund and \$3.7 million in additional Medicaid claims in the FY04 General Appropriation Bill to partially offset this reduction.
- Further, Act 432 (FY03 Supplemental Appropriation Act, originally HB 1968) restored \$3 million to HSC-S's restricted account.
- These actions leave HSC-S with a remaining budget problem of roughly \$2.8 million.
- HSC-S's FY04 budget contains \$5 million for the costs of providing medical services to state and local inmates at University Hospital.
- Under the provisions of Act 872 and Act 906 of the 2003 Regular Session, E. A. Conway Medical Center in Monroe was transferred to the HSC-S on July 1, 2003.
- HSC-S will receive an additional \$2.6 million in the Tobacco Tax Health Care Fund to support its Cancer Center in FY04. This will bring the total in the fund for HSC-S to \$7 million.

Higher Education

- Higher Education was appropriated \$2.1 billion for Fiscal Year 2004 or about 5% greater than the FY03 budget. The State General Fund appropriation increased by about 7% over the current budget. This appropriation includes the Board of Regents, the Louisiana State University system, the Southern University system, the University of Louisiana system, and the Louisiana Community and Technical Colleges system.
- State General Fund appropriations to Higher Education that are not typically provided to state agencies include: \$3.6 million for the cost to annualize FY03 classified state employee merit increases, \$6 million for FY04 classified state employee merit increases, \$11.2 million for risk management increases, and \$15.9 million for group insurance increases.
- The major programmatic enhancements to Higher Education funded by State General Fund in Fiscal Year 2004 totaling approximately \$57 million are summarized below.

State General Fund Enhancements in HB 1 Enrolled

Annualize FY 03 classified state employee merit increases	\$3,622,389
FY 04 classified state employee merit increases	\$6,037,940
Risk Management adjustment (\$17.1M total)	\$11,198,942
Group insurance adjustment (\$17.1M total)	<u>\$15,947,595</u>

Total Statewide Adjustments **\$36,806,866**

HIED Performance Pool (FY03: \$6.4M)	\$5,250,000
Endowed Chairs and Professorships (\$6M 8g per year)	\$2,000,000
Community and Technical College Pool (FY03: \$7.6M Base)	\$5,000,000
Health Care Workforce Development	\$2,700,000
Gene Therapy Research Consortium	\$610,180
Barataria-Terrebonne National Estuary Pgm. (State Match)	\$250,000
Faculty recruitment at LSUHSC at N.O. and Shreveport	\$1,500,000
Pennington for new bio-imaging center and expansion	\$1,000,000
LSUHSC-NO for Dept. of Psychiatry (FY03: Sched. 01)	\$310,000
UL-Monroe for Pharmacy & Health Sciences	\$1,500,000
McNeese-Women's softball facility and gender equity	<u>\$150,000</u>

Total Hied Specific Adjustments **\$20,270,180**

COMBINED TOTAL **\$57,077,046**

- The appropriation also continued funding of \$4 million in State General Fund for the Governor's Biotechnology Initiatives.

Louisiana Community and Technical College System

- \$5 million added for projected community college growth (noted above)
- \$10 million in Fees and Self-generated Revenues added due to tuition increases and projected enrollment increases at various community colleges
- \$0.4 million added for rent and expenses for the new Louisiana Delta Community College to be located on the University of Louisiana – Monroe campus

Special Schools and Commissions

- \$9.9 million added to cover the increased number of TOPS awards to cover the state's portion of a 3% annual tuition increase at various colleges and universities

Department of Education

- \$80 million added for the MFP
- Of this amount, \$61 million is for normal growth and \$19 million incorporates the FY 02-03 pay raise for support workers into the MFP permanently
- Under the FY 03-04 MFP, teachers will receive a pay raise of approximately \$350 per year. These are not across-the-board raises. Some districts will receive no funds for raises, and other districts will distribute these funds at their own discretion.
- \$5 million added for the K-12 Accountability Awards Program
- \$2 million added for accountability initiatives such as remediation and LEAP 21 tutoring
- \$1 million added for the Distinguished Educators Program
- \$1 million added for the Learning Intensive Networking Communities for Success (LINCS) Program to certify teachers on the web
- Over \$1 million added to provide stipends for school counselors, teachers, and school psychologists who receive professional certification

Department of Corrections

- Office of Youth Development – Contract Services Program — \$3 million in State General Fund (Direct) has been built into the base of this office’s budget to fund juvenile residential and day treatment programs, which in previous years had been placed in the budget via line-item legislative amendments. The Department will seek competitive bids for services to address these needs. An additional line-item amendment for \$500,000 in State General Fund (Direct) was also provided to the Contract Services Program for “alternative treatment, residential, and non-residential programs.” One line-item amendment for \$250,000 in State General Fund (Direct) was placed in the Office of Youth Development by the House of Representatives for the New Orleans Youth Foundation.
- Prison construction — The department has \$2 million in State General Fund (Direct) built into its budget for two major prison dorm construction projects for FY04. A 192-bed dorm at the Louisiana Correctional Institute for Women is scheduled to be completed in December 2003. This dorm will require 47 positions. A dorm is also being constructed at Jetson Correctional Center for Youth to replace a dorm that burned down in 2000. This new dorm will contain 72 beds and will require 50 positions.
- Closure of certain dorms —The department is scheduled to close 238 beds at juvenile institutions in FY04, with an anticipated reduction of about \$2.5 million SGF (Direct) for FY04 as a result of these various closures. The department is making an effort to shift juveniles from secure facilities to community-based programs, thus resulting in fewer beds needed.
- Adult Probation and Parole — \$170,000 in SGF (Direct) is in HB1 for a new district probation and parole office to serve Ascension, Assumption, and St. Landry parishes. It is to be headquartered in Donaldsonville.
- Inflation adjustments — Two percent (2%) inflation adjustments were provided for both Winn and Allen Correctional Centers. The cost for these adjustments was \$320,982 for each institution.
- A total of \$2 million in interagency transfers will be received by the Office of Youth Development from Federal Title IV-E funds from the Department of Social Services. This funding will be distributed to local juvenile courts to assist with the cases of juveniles who meet the requirements for the Federal Title IV-E program (typically non-adjudicated delinquents).

Department of Public Safety

- **DNA Testing/Crime Labs** — In its current posture, HB1 contains \$11 million total for DNA testing and funding crime labs from the following sources:
 - \$4 million in SGF (Direct) per Act 487 (SB 346) of the 2003 Regular Session of the Legislature for DNA testing of felons;
 - \$3.4 million in state funding (fees and self-generated) built into the base budget for forensic testing and CODIS database samples;
 - \$650,000 from surplus funds from the House of Representatives for “no-suspect rape kits.” (1083 samples);
 - \$2.5 million in Federal funds for “no-suspect backlog kits.” (about 2,000);
 - and, \$500,000 in SGF (Direct) to help fund regional crime labs.
- Senate Finance Committee added \$1.5 million from the Insurance Fraud Fund for 13 positions in the Office of State Police to perform criminal investigations, per the request of the department. This funding was necessary due to an insufficient number of investigators for insurance fraud cases. The department was investigating 150 cases per year, yet receiving 200 new cases per year. Thus, a backlog of about 50 cases per year has been piling up with no staff available to investigate.
- The Office of State Police also received \$21.3 million in Federal Funds that are to be interagency transferred from the Department of Military Affairs for homeland security activities and domestic preparedness grants to local governments.

Department of Social Services

- **Child Care Assistance Program** — The Office of Family Support received \$5 million in SGF (Direct) to match \$16.8 million in federal funds for the Child Care Assistance Program for FY04. This funding was necessary to shore up this program, which helps low-income parents afford child care by paying a subsidy towards their weekly or monthly costs.
- **TANF** — TANF initiatives are funded at approximately \$117 million for FY04. It is important to note that the upcoming fiscal year, FY04, will be the last “big year” for TANF initiatives. The large pot of unexpended funds from prior years that has been used for cash assistance will be gone in FY05. As such, more current year TANF money will be needed to pay for cash assistance and less will be available for initiatives. The amount of TANF funding available for initiatives for FY05 is expected to be around \$22 million. (*see next page for list of FY04 TANF initiatives*).

FY04 TANF Initiatives		
<u>Literacy</u>		
Public Pre-K	\$	39,000,000
Private Pre-K	\$	8,500,000
Drop-out Prevention	\$	4,500,000
After School	\$	9,500,000
Adult Literacy	\$	1,500,000
Truancy	\$	2,430,193
LPB Early Learning Initiative	\$	-
TOTAL LITERACY	\$	65,430,193
<u>Employment</u>		
Job Skills	\$	11,750,000
Microenterprise Development	\$	641,666
Incarcerated Job Skills	\$	2,000,000
Post-release programs	\$	4,500,000
TOTAL EMPLOYMENT	\$	18,891,666
<u>Family Stability</u>		
Teen Pregnancy	\$	6,500,000
Domestic Abuse	\$	3,166,666
Community Response	\$	3,000,000
Fatherhood Initiatives	\$	750,000
Family Strengthening	\$	500,000
CASA	\$	4,830,000
Drug Courts	\$	5,000,000
Substance Abuse	\$	4,166,666
Housing Initiatives	\$	-
At-risk Children/Mental Health	\$	1,750,000
Abortion Alternatives	\$	1,500,000
TOTAL FAMILY STABILITY	\$	31,163,332
<u>Other</u>		
DOA Oversight	\$	1,600,000
Caseworker Training	\$	750,000
Initiative Implementation	\$	-
TOTAL OTHER	\$	2,350,000
GRAND TOTAL	\$ 117,835,191	

Department of Economic Development

Significant Enhancements to Base Funding

DED received enhanced funding for a number of projects.

- \$800,000 for Gene Therapy Lab for operating expenses
- \$292,750 for Wet Lab operations in New Orleans and Shreveport
- \$641,666 in TANF IAT for the Microenterprise Program
- \$100,000 for the Essence Music Festival
- \$715,521 in the Marketing Fund for advertising
- \$3.5 million in LEDF debt service funding for UNO Center of Excellence at Northrup Grumman Ship Systems Avondale Project (first year of a 20 year commitment)

Other Economic Development Efforts

- \$4.96 million in bond debt for the 7th year of a 20 year commitment for the UNO Research and Technology project at Avondale
- \$1.7 million in Small Business bonding and business development activities
- \$4.3 to the La. Technology Park in Baton Rouge (commitment through FY08)
- \$1.8 million in sports initiatives
- \$2.4 million supporting state, regional, federal partnerships
- \$96,000 for a economic development activities associated with the military segment of the state's economy:\$50,000 for a liaison with the federal government and \$46,000 for a study assessment
- \$302,860 for foreign representatives in the Far East, Europe, and Latin America